

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE NOVEMBER 16, 2016 PENSION BOARD MEETING

1. Call to Order

The Chairman called the meeting to order at 8:30 a.m. at the Marcus Center for the Performing Arts, 929 North Water Street, Milwaukee, WI 53202.

2. Roll Call

Members Present

Members Excused

Linda Bedford
Laurie Braun (Vice Chair)
Daniel Byrne
Aimee Funck
Norb Gedemer
Michael Harper
Patricia Van Kampen
Vera Westphal (via telephone)
David Zepecki
Dr. Brian Daugherty (Chairman)

Others Present

Marian Ninneman, Director-Retirement Plan Services
James Carroll, Assistant Corporation Counsel
Jerry Heer, Director, Department of Audit
Vivian Aikin, Sr. Pension Analyst
Tina Lausier, Fiscal Officer
Amy Pechacek, Director of Risk Management, Milwaukee County
Brett Christenson, Marquette Associates, Inc.
Christopher Caparelli, Marquette Associates, Inc.
Steven Huff, Reinhart Boerner Van Deuren s.c.
Alan M. Levy, Lindner & Marsack, S.C.
Jeffrey P. Sweetland, Hawks Quindel S.C.
Connie Arnold (and spouse), Milwaukee County Employee
Don Tyler, Former Director of Administrative Services at Milwaukee County

3. Chairman's Report

The Chairman welcomed Mr. David Zepecki as the new retiree-elected member of the Pension Board.

4. Dennis Dietscher—Reconsideration of Suspension of Benefits Under Pension Board Rule 807

In open session, Alan Levy addressed the Pension Board. Mr. Levy introduced himself as an Attorney from Lindner & Marsack, S.C., retained by the County as co-counsel for the Dennis Dietscher matter. Mr. Levy referred to his October 26, 2016 presentation to the Pension Board regarding Mr. Dietscher's suspension of pension benefits and asked the Board to reconsider the County's position on the matter.

Mr. Levy summarized the County's position. Mr. Levy stated the County believes the facts are undisputable. It believes Mr. Dietscher first began his illegal conduct while in office during 2009, as stated in the criminal complaint. Mr. Levy noted that during sentencing discussions, the 2009 date was never challenged as the beginning of Mr. Dietscher's misconduct. Mr. Levy asserted that according to the language of the Ordinances and Rules, the only benefit Mr. Dietscher was entitled to in 2009 was a deferred vested pension. Therefore, Mr. Levy argued, Mr. Dietscher forfeited his right to such benefit when he committed the illegal conduct in direct relation to his position at the County. Mr. Levy next stated that neither the County nor Mr. Dietscher's direct supervisor received a resignation letter from Mr. Dietscher. Mr. Levy observed that the County's Employee Transaction/Change Report ("ETCR") form has a specific section for employees to complete to indicate a resignation. However, Mr. Dietscher did not complete the resignation section of his ETCR and, Mr. Dietscher's ETCR indicates he was terminated. Mr. Levy also argued that nothing in the Ordinances or Rules defines termination or forfeiture in the context of Mr. Dietscher's circumstance.

Mr. Levy asserted the problem with interpreting the Ordinances and Rules in the context of Mr. Dietscher's case is that appropriate corrective action stemming from the initial misconduct would not typically occur the same day of the misconduct. Mr. Levy argued an employee forfeits his or her right to a pension from ERS at the time they engage in the illegal conduct, not once the illegal conduct is eventually discovered and appropriate action is taken. Mr. Levy declared that no employee should be rewarded for successfully hiding illegal conduct and suggested that is what Mr. Dietscher is asking ERS to do. Mr. Levy suggested it would be bad policy for ERS to

reward Mr. Dietscher for successfully hiding his illegal activity and such policy is not supported by the Rules. Mr. Levy stated Mr. Dietscher was placed on paid administrative leave the day after his arrest and "ran off to the Pension Fund to try and get a benefit right away before he was actually convicted." Mr. Levy explained it is the County's position that by entering a guilty plea, Mr. Dietscher forfeited his pension benefit when he initially committed the misconduct in 2009, as outlined in the criminal complaint. Mr. Levy argued that Mr. Dietscher ceased being an employee of the County when he was terminated because of that misconduct. Mr. Levy further argued that "whether somebody puts a magic phrase on a form saying 'terminated for misconduct' or just accepts the fact that he is done as an employee, the answer is the same." Mr. Levy argued that Mr. Dietscher ceased being an employee once the County placed him on paid administrative leave to best determine how to facilitate his termination process. Mr. Levy asserted that Mr. Dietscher was terminated for felony misconduct which occurred as far back as 2009 and, therefore, caused the forfeiture. Mr. Levy stated that in 2009, Mr. Dietscher did not qualify for the Rule of 75. In 2009, Mr. Dietscher only qualified for a deferred vested pension benefit and, therefore, the County believes Mr. Dietscher should be denied a pension benefit.

Mr. Levy next referred to a letter from Attorney Jeffrey P. Sweetland dated November 9, 2016. In the November 9 letter, Mr. Sweetland alleges the Pension Board would violate a one-year review rule, as provided in Rule 1001, if it would terminate Mr. Dietscher's pension. However, Mr. Levy argued there have been prior circumstances where Rule 1001 did not apply until the Pension Board decided to recoup improperly paid benefits. Mr. Levy cited the Kevin Walker matter as an example and argued the Dietscher matter has certain similarities to the Walker case. Mr. Levy stated "you never concluded one way or the other until now what he is entitled to, so the one-year rule would not apply if you used the same standards as in the Walker case." Mr. Levy also noted that according to the Rules, the Pension Board may perform an investigation once presented with an issue and take appropriate retroactive action if deemed necessary. Mr. Levy argued that Rule 1001 is not a barrier to taking corrective action once the Pension Board has been presented with a basis to take such action.

Mr. Levy concluded his remarks by suggesting the Pension Board would reward Mr. Dietscher for cheating and hiding his illegal activity if it takes any position other than the one advocated by the County. Mr. Levy indicated he believes this is not the intention of the Board.

Ms. Pechacek then provided comments to the Board in open session. Ms. Pechacek introduced herself as the Director of Risk Management at Milwaukee County. Ms. Pechacek explained she had been Director of Risk Management for only one month when she received a search warrant for all departmental records in the fraud investigation of Mr. Dietscher. Ms. Pechacek emphasized that the County considers Mr. Dietscher a terminated employee who did not resign. Ms. Pechacek stated Mr. Dietscher never spoke to her following his arrest and never sent her a resignation letter. Ms. Pechacek further stated that all Mr. Dietscher did was "run down to the pension office to try and protect his benefit now that he had been caught after years and years of felony misconduct, fraud and bribes." Ms. Pechacek reiterated that Mr. Dietscher's ETCR states he is a terminated employee. Ms. Pechacek declared that she believes it is in the best interest of ERS to not reward Mr. Dietscher's illegal behavior and follow the intent of the Ordinances and Rules to forfeit his benefits.

Mr. Levy called for questions from the Board.

Mr. Gedemer questioned what date the County considers Mr. Dietscher terminated. Mr. Levy first responded by stating that Mr. Dietscher was arrested on February 19, 2014. As the result of his arrest, Mr. Dietscher was placed on administrative leave on February 20, 2014. Mr. Dietscher also filed an emergency pension application February 20, 2014. Mr. Levy then argued "in effect he nullified it, because the Rules state if you then ask for a normal pension before you got the emergency benefit, the whole emergency application is considered void."

In response to follow-up questions from Ms. Braun, Mr. Levy stated he believes Mr. Dietscher applied for his pension benefit retroactive to February 28, 2014. Mr. Levy stated Mr. Dietscher did not complete the resignation section on the ETCR, but indicated he believes a County employee approved the ETCR by signing and dating it March 20, 2014.

Ms. Braun then asked if Don Tyler was the name of the County employee who signed Mr. Dietscher's ETCR. Mr. Levy replied by stating he could not decipher the signature. However, another attendee present agreed that the signature appears to be that of Don Tyler.

Jeffrey Sweetland next addressed the Pension Board in open session. Mr. Sweetland introduced himself as an Attorney from Hawks Quindel S.C. appearing as co-counsel on behalf of Mr. Dietscher. Mr. Sweetland noted he summarized his observations regarding the Dennis Dietscher matter in a letter dated November 9, 2016 addressed to the Director of RPS.

Mr. Sweetland stated the Ordinances provide that a member is disqualified from receiving a deferred vested benefit only if such member is terminated for cause that amounts to fault or delinquency. Mr. Sweetland argued that under the Ordinances, "fault or delinquency does not float out there in a vacuum that attaches to any provision of the Ordinance that is convenient." Mr. Sweetland asserted the Ordinance specifically applies to a deferred vested benefit in instances where there has been a termination for cause that amounts to fault or delinquency. Mr. Sweetland observed that Mr. Levy has argued if Mr. Dietscher's misconduct would have been discovered in 2009, the only benefit he could have received was a deferred vested benefit. Mr. Sweetland asserted the problem with Mr. Levy's argument is that Mr. Dietscher was not terminated for cause based on fault or delinquency in 2009. Mr. Sweetland rebutted Mr. Levy's argument and stated that one cannot hypothetically declare a termination based on fault or delinquency would have occurred in 2009 if the misconduct would have been discovered in 2009.

Mr. Sweetland continued his remarks by referring to a 2001 ruling issued by the Wisconsin Supreme Court in the case of *Milwaukee District Council 48 v. Milwaukee County*. Mr. Sweetland indicated that in its 2001 ruling, the Wisconsin Supreme Court clearly stated that once an employee has become eligible to receive a deferred vested pension, the Pension Board cannot deny an employee such benefit, unless the employee is terminated for fault or delinquency. Mr. Sweetland argued there must be due process and there is no due process in a hypothetical finding of fault or delinquency.

Mr. Sweetland suggested the County began a process once it placed Mr. Dietscher on administrative leave. That process included filing charges with the Milwaukee County Personnel Review Board ("PRB").

Mr. Sweetland argued it would have been up to the PRB to determine if it would allow Mr. Dietscher to resign rather than face charges for official misconduct. Mr. Sweetland suggested it was the County's routine practice to allow charged employees to resign and such practice was most likely followed to specifically protect pension benefits. Mr. Sweetland reiterated the only provision in the Ordinances for forfeiture of pension benefits is termination for cause amounting to fault or delinquency.

Mr. Sweetland further argued it is nonsensical for counsel to now claim that Mr. Dietscher was terminated while eligible for a deferred vested benefit. Mr. Sweetland declared that no error was made in the administration of Mr. Dietscher's pension or by the Pension Board because Mr. Dietscher received his pension in accordance with the Ordinances. Mr. Sweetland also suggested the County is asking the Pension Board to "gloss over the letter of

the Ordinance" simply because it conveys a bad message should Mr. Dietscher be allowed to retain his pension benefit. Mr. Sweetland suggested that if the County is disturbed by the implications of granting a pension to an individual convicted of a felony, it should amend the Ordinances to include a wider scope for denying benefits under such circumstances.

Mr. Sweetland concluded by summarizing his arguments. Mr. Dietscher was not terminated for cause amounting to fault or delinquency by the County's PRB. There is no deferred vested benefit at issue and that is the only benefit subject to forfeiture by fault or delinquency. Therefore, no error was made by RPS or the Pension Board when Mr. Dietscher's pension benefit was granted in 2014. Furthermore, Mr. Sweetland argued, such action became final one year later pursuant to the Rule 1001 because "it was an action of the Pension Board that was entitled to finality." Mr. Sweetland alluded to ERS's Voluntary Correction Program ("VCP") submission and asserted that the tax qualification status of ERS was previously at risk because the language of the Ordinances was overlooked. Mr. Sweetland explained that even though the Internal Revenue Code provides for forfeiture of benefits under a government pension plan, it must be achieved in accordance with written ordinances. Mr. Sweetland argued that playing "fast and loose" with the language of the Ordinances will put the benefits of all County employees at risk.

Mr. Sweetland and the Chairman called for questions and there were none.

Ms. Braun then moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(g) with regard to agenda item 4 for the purpose of the Board receiving oral or written advice from legal counsel concerning strategy to be adopted with respect to pending or possible litigation. At the conclusion of the closed session, the Board may reconvene in open session to take whatever actions it may deem necessary concerning this matter.

The Pension Board agreed by roll call vote 10-0 to enter into closed session to discuss agenda item 4. Motion by Ms. Braun, seconded by Ms. Bedford.

The Pension Board discussed agenda item 4 in closed session.

After returning to open session, the Pension Board voted unanimously to deny any further payment of ERS pension benefits to Mr. Dietscher and to recoup all ERS pension benefits previously paid to Mr. Dietscher. Motion by Mr. Gedemer, second by Ms. Westphal.

Ms. Westphal left the meeting via teleconference following the vote.

5. Minutes—October 26, 2016 Pension Board Meeting

The Pension Board reviewed the minutes of the October 26, 2016 Pension Board meeting.

The Pension Board unanimously approved the minutes of the October 26, 2016 Pension Board meeting. Motion by Mr. Gedemer, seconded by Ms. Funck.

6. Investments

(a) Marquette Associates Report

Brett Christenson and Christopher Caparelli of Marquette Associates distributed the October 2016 monthly report.

Mr. Caparelli began with an overview of the market environment as of October 31, 2016. Most asset classes underperformed in October, but the magnitude of underperformance was not significant and activity in October was generally uneventful. There was negative price action in the bond markets during October and was mainly due to the Federal Reserve's ("Fed") telegraphed commitment to raise interest rates by the end of 2016. Under U.S. equity, the large cap S&P 500 index was down -1.8% in October. The S&P 500 endured one of its longest underperforming streaks of nine days in October. However, with a loss of approximately 3% during that nine day period, the magnitude of loss was relatively small. The Russell small and mid-cap U.S. indices were also down in October, at -4.8% and -3.2% respectively. The International equity markets were down in October by approximately -1.5%.

Mr. Caparelli concluded his remarks with a discussion of the recent presidential election. Major swings occurred in the markets immediately following the results of the presidential election in early November. Mr. Caparelli noted it is very difficult to predict election results and even more difficult to predict how the markets will react to such events. Sharp losses in the futures market on the evening of the election foreshadowed a negative day in the markets on Wednesday, November 9. However, stocks rallied substantially the day after president-elect Trump's victory and the rally has continued to date. Several new themes have arisen in the marketplace following the election. It now appears there is a general belief in the marketplace that president-elect Trump may be able to stimulate economic growth. Current sentiment also suggests that a

Republican-controlled Congress may be able to precipitate some fiscal stimulus, which has been lacking over the last eight years due to a gridlocked Congress. The monetary stimulus enacted by the Fed has come to an end and conventional fiscal stimulus is now necessary to elicit genuine economic growth. Industrials have performed well since the election and there is now a prevailing sentiment that infrastructure spending will spur economic growth. Companies such as Caterpillar have performed well recently and metals and copper have also been very strong. Banks have also performed well recently. There is now a belief that if a Republican-controlled Congress can repeal or replace certain aspects of the Dodd-Frank Wall Street Reform and Consumer Protection Act, performance of banks will improve under a reduced regulatory environment. Ten-year U.S. Treasury yields have recently risen and continue to move up. As of October 31, 2016, yield on the ten-year U.S. Treasury was at 1.83%. As of November 15, 2016, the ten-year yield closed at 2.24%. There is also a belief that some inflation will occur once fiscal stimulus and economic growth take hold. Mr. Caparelli observed the market's response to a president-elect Trump has generally been more positive on the equity side and more negative on the fixed income side than most anticipated.

In response to a question from the Chairman, Mr. Caparelli confirmed there has been a post-election sell off of U.S. government fixed income securities and that has been reflected in increasing yields.

In response to a follow-up question from the Chairman, Mr. Caparelli confirmed it is widely expected the Fed will raise interest rates by 25 basis points in December 2016. Current expectations suggest two additional increases may occur in 2017. However, similar predictions for 2016 did not materialize and such action is difficult to predict with any certainty.

Mr. Christenson next discussed the flash report and manager status. Several managers remain on alert and K2 has been terminated. Artisan Partners, Geneva Capital and ABS are on alert for performance issues. Mesirow is on alert for performance and organizational issues and J.P. Morgan remains on notice for organizational issues.

Mr. Christenson then discussed market values as of October 31, 2016. The Fund's total market value was \$1.65 billion. In general, the Fund's allocations are relatively on target with the investment policy. Private equity is slightly under allocated at 7.2%, but the composite is slowly increasing to the 10% target. The Fund's infrastructure composite is slightly over allocated at 9.1% relative to the 8.5% target. The Fixed income composite remains slightly underweight to the 18% target

allocation at 16.6%. However, total cash equivalents in the fund were at approximately 3% as of October 31, 2016.

Mr. Christenson continued with a discussion of active versus passive management. With the Fund's asset allocations relatively on target, the central issue with performance now centers on how well the performance of each manager supports the Fund's allocations. This returns to the ongoing debate of active versus passive management. Approximately one-third of the Fund's fixed income portfolio is currently indexed with Mellon Capital. Approximately 60% of the Fund's international equity portfolio is indexed with Northern Trust ("NTGI") and U.S. equity is approximately 20% indexed with Mellon Capital. The remainder of the portfolio is actively managed. Mr. Christenson observed the Fund has relied heavily on active management for many years and stated it is beginning to negatively affect the Fund. Mr. Christenson suggested it is time to consider rebalancing the Fund's assets via increased indexing. As of October 31, 2016, the total Fund year to date return was at 4.3% net-of-fees. This performance lags far behind the Fund's 8% assumed rate of return. The U.S. equity composite is underperforming year-to-date at 3.7% net-of-fees relative to the Wilshire 5000 benchmark at 6.2%. Mr. Christenson noted the U.S. equity composite is strategically overweight to value and small cap stocks. If the Fund's active U.S. equity managers performed as they should have, the total composite would have outperformed the Wilshire 5000 on a year-to-date basis. However, U.S. equity manager underperformance has negatively affected the Fund's total year-to-date return by approximately 62 basis points. Mr. Christenson observed that absent the U.S. equity manager underperformance, the Fund's year-to-date return would be closer to 5%. Marquette believes there is value in tilting the U.S. equity portfolio to value and small cap stocks. However, Marquette recommends saving costs on manager fees via indexing if the U.S. equity managers cannot begin to outperform.

Under U.S. equity, Boston Partners, Artisan and Geneva are each underperforming year-to-date by approximately 4%. Mesirow and Silvercrest are also underperforming year-to-date by 11.7% and 0.8% respectively. Mr. Christenson noted that large swings in U.S. manager performance have negatively affected the Fund. Marquette believes ERS must maintain more consistency with U.S. equity performance over the next 10 to 20 years. Mr. Christenson observed that Mesirow is currently Marquette's primary concern, followed by Geneva. Mr. Christenson recommended the Board place Mesirow on notice. However, as previously noted, there have been recent significant moves in the market following the November presidential election. Marquette believes these changes could

create a shift in market dispersion which may benefit active manager performance. Marquette recommends waiting to see if these shifts result in more permanent changes that could enhance U.S. equity manager performance before deciding to terminate. Mr. Christenson explained Marquette recommends establishing a three-month timeframe for Mesirow and Geneva to recapture one-third of their underperformance. If these goals are not met by February 2017, Marquette recommends terminating Mesirow and Geneva and rebalancing the assets with NTGI. If the performance goals are met, Marquette would recommend reestablishing strict performance standards for Mesirow and Geneva.

Ms. Van Kampen agreed with Marquette's recommendation to wait several months before deciding to terminate Mesirow and Geneva. However, if performance rebounds, Ms. Van Kampen suggested setting strict performance guidelines and closely monitoring Mesirow and Geneva going forward. Ms. Van Kampen also questioned whether Marquette's proposed three-month timeframe is an appropriate amount of time to recapture performance.

The Chairman recommended waiting until the end of the 2017 first quarter before deciding to terminate. The Chairman explained it would be prudent to wait for the markets to fully react to the 2017 inauguration and other related events, such as Senate confirmation of President-elect Trump's cabinet appointees.

Ms. Braun noted for the record that certain members of the Pension Board have actively sought to move towards passive management for some time. Ms. Braun noted Marquette has continually recommended waiting to see if active manager performance would rebound. Ms. Braun expressed concern over the Fund's continually declining balance and questioned whether there is any additional time to wait for performance to rebound.

Mr. Christenson responded to Ms. Braun by noting Mesirow and Geneva are very high quality managers that are underperforming due to an unprecedented low-quality, extended junk rally in the market. Mr. Christenson recommended exercising a cautious tone relative to termination because Mesirow and Geneva have been extensively vetted and have no investment team turnover. Mr. Christenson recommended closely monitoring performance over the next several months with the previously discussed performance guidelines.

Mr. Byrne expressed concern with Mesirow's approximate 12% tracking error relative to its benchmark. Mr. Byrne suggested Mesirow present to the Board to explain its dramatic underperformance. Mr. Byrne also

expressed concern with Marquette's proposed three-month timeframe. Mr. Byrne suggested such timeframe is a bad incentive because managers could take undue risks to correct performance if they are advised they will otherwise be terminated.

Mr. Christenson addressed Mr. Byrne's concern regarding Marquette's proposed timeframe and observed the managers maintain an extremely tight tracking error with all individual client accounts. These individual client accounts are managed according to the firm's central investment philosophy. Mr. Christenson expressed confidence that the managers would not deviate from established investment philosophies to outperform in the short-term for one client. Mr. Christenson observed such practices would place the entire firm at risk.

Mr. Byrne suggested providing notice of termination unless performance rebounds and inviting Mesirow and Geneva to present to the Board. However, Mr. Byrne suggested ERS should not state a specific timeframe for performance to rebound.

Mr. Christenson recommended ERS maintain full communication with the Fund's managers and designate a specific short-term timeframe for Mesirow and Geneva to recapture one-third of underperformance.

In response to a question from the Chairman, Mr. Christenson stated the three-month timeframe does not cause concern relative to front running.

With the ongoing fixed income RFP combined with the number of managers on alert, Mr. Harper questioned the level of risk involved in potentially turning over approximately 25% of the portfolios' assets in the next several months.

Mr. Christenson explained that any turnover in the Fund will be carefully studied in advance. Marquette would anticipate low market impact from any turnover because the turnover would be laddered and ERS would utilize strong transitional managers. Mr. Christenson reiterated the optimal way to manage the Fund is from an asset allocation perspective and noted attempts to predict the markets can lead to trouble. Mr. Christenson suggested first addressing some of the active manager issues. Once addressed, additional discussions can be held at the Investment Committee relative to less immediate concerns, such as stress testing the portfolio for various potential factors.

In response to a request from Ms. Van Kampen, Mr. Christenson confirmed Marquette will include a peer group analysis in its monthly reports relative to active manager performance.

The Pension Board voted unanimously to place Mesirow small cap and Geneva Capital on notice for performance. Motion by Ms. Braun, seconded by Ms. Van Kampen.

In response to a question from the Chairman, Mr. Christenson confirmed Marquette will contact Mesirow and Geneva. Marquette will explain ERS is looking for each manager to significantly outperform the benchmark by at least one-third in the next four months or face termination.

Mr. Christenson concluded by noting the performance of ABS under hedged equity and OFI, the Fund's emerging markets manager, may be the next topics for discussion.

Mr. Gedemer left the meeting.

7. Investment Committee Report

Ms. Van Kampen reported on the November 7, 2016 Investment Committee meeting. Mr. Christenson of Marquette Associates discussed the core fixed income manager request for proposal ("RFP") responses. There were 58 responses to the RFP. The 58 respondents were then reviewed against minimum qualifications specified in the RFP. These qualifications included a minimum five-year gross return, a maximum five-year down market capture and a positive return in 2008. Twelve managers met the top-tier qualifications. Two additional managers were close to meeting the top-tier qualifications and the Committee asked Marquette to contact these respondents to review proposed fee structures.

Mr. Caparelli then advised the Pension Board that Marquette has contacted the 14 semi-finalist RFP respondents and reported that fee discussions were favorable. Marquette has subsequently narrowed down the list to 12 semi-finalist candidates.

Ms. Van Kampen concluded her report by explaining the Investment Committee will next compare returns of the 12 semi-finalist candidates against the Barclays Aggregate Index and J.P. Morgan fixed income, the Fund's current active core fixed income manager. The Investment Committee also discussed whether the Barclays Aggregate is the optimal benchmark for the Fund's fixed income portfolio. The Committee will continue its discussions on these topics at its December meeting, with a goal

of narrowing the RFP respondents to approximately 4 final candidates. Once the final candidates are selected, the Committee will proceed with candidate interviews.

8. Audit Committee Report

Because Ms. Westphal was not present, the Pension Board postponed its full discussion of the November 3, 2016 Audit Committee meeting and asked Mr. Carroll to discuss the Rule of 75 Ordinance amendments.

Mr. Carroll summarized the proposed Rule of 75 Ordinance amendments. Mr. Carroll explained that when a proposed Ordinance amendment is presented to the County Board, the Pension Board must review the proposed amendment and comment within 30 days of review as it deems necessary. The proposed amendments would make two changes to the "status quo" Rule of 75 Ordinance amendments previously adopted by the County Board on September 29, 2011. Mr. Carroll noted the term "status quo" was applied to ensure that certain employees represented by unions did not lose benefits provided by a collective bargaining agreement ("CBA") once the State of Wisconsin passed Act 10. The County Board's intent was to preserve Rule of 75 benefits as detailed in certain CBAs by implementing an effective date of September 29, 2011. However, since the status quo Ordinance amendments were adopted in 2011, litigation involving District Council 48 AFSCME Union ("DC 48") and the County has been ongoing. In that litigation, DC 48 argued the status quo Ordinances made some of its members eligible for the Rule of 75 who were not previously eligible under the DC 48 CBA. The County strongly disagrees with this argument. The County believes the language in the 2011 status quo Ordinances is clear on the intent of the County Board and has appealed the judge's ruling on this matter. The current proposed amendments would clarify the County's intent by amending the effective date from September 29, 2011 to the date Act 10 took effect, June 29, 2011. The second proposed change amends Ordinance language that currently reads "not covered by the terms of a collective bargaining agreement" to instead read "not represented by a collective bargaining unit." Mr. Carroll observed that some other unions could also be affected by these changes because certain unions have a cutoff date for the Rule of 75 in their CBAs either on or after the date for nonrepresented employees in the Ordinance.

Mr. Carroll concluded his remarks by explaining the Pension Board can choose to provide comments to the County Board on the proposed amendments or offer no comment. Mr. Carroll distributed a draft Secretary's Certificate from the Pension Board to the County Board and

explained the alternative options for comment. Under Option 1, the Pension Board requests the County Board adopt the proposed Ordinance amendments to section 201.24(4.1) to avoid further litigation and codify the County's intent related to the Rule of 75. Under Option 2, the Pension Board offers no formal comment regarding the proposed Ordinance amendments to section 201.24(4.1) related to eligibility for the Rule of 75. Options A and B relate to the financial effect and would be included with Options 1 or 2. Option A states the Director of RPS estimates the adoption of the proposed Ordinance amendments would not result in additional administrative or programming costs to the system. Option B states the Pension Board notes that computer system updates to implement the proposed Ordinance amendments are estimated to result in an additional cost to the system of \$__ amount. Option B further states the Pension Board believes it is in the best interest of ERS for the County Board to adopt the Ordinance amendments which enhance and preserve the assets of ERS and clarify the intended operation of the Ordinances.

In response to a question from Ms. Braun regarding Option B, Mr. Carroll stated that after discussing the financial effect with Ms. Ninneman, he believes Option B would not apply.

Ms. Ninneman confirmed that no additional administrative expenses related to reprogramming the system are anticipated.

In response to a question from Ms. Van Kampen, Mr. Carroll clarified the proposed Ordinance amendments are originating from the Corporation Counsel's office, not the Pension Board. However, because the proposed Ordinance amendments would affect ERS, the Pension Board must have an opportunity to provide comments.

The Chairman expressed a preference to approve the Secretary's Certificate with Option 1 and Option A.

The Chairman called for comments.

Ms. Funck expressed a preference to approve the Secretary's Certificate with no comment as stated under Option 2. Ms. Funck explained she did not want it to appear that the changes to the Ordinance were originating from the Pension Board.

Mr. Carroll recommended the Pension Board include either Option A or B for completeness. Mr. Carroll explained that although Options A and B could be considered technicalities, the information conveyed under each option is important.

Ms. Braun expressed concern with including Option A or B if the Pension Board responds with no comment. Ms. Braun suggested it is not the role of the Pension Board to provide input on a cost determination made by RPS. Ms. Braun suggested RPS should provide the cost determination analysis to the County Board via Corporation Counsel.

Mr. Huff explained the Pension Board may wish to include a comment on cost determination because it could delay the entire process if the County Board or the Pension Study Commission later requests a cost determination.

Ms. Braun questioned why the County would not ask what the cost effect would be of not adopting the proposed amendments.

Messrs. Huff and Carroll noted the County has already inquired about the actuarial cost ramifications of not adopting the amendments and explained such information will be included with the response.

In response to a suggestion from Ms. Ninneman, Mr. Carroll confirmed he would submit the Secretary's Certificate with a separate note detailing RPS's cost determination.

The Pension Board voted 6-2, motion by Ms. Funck and seconded by Mr. Byrne, with Mses. Bedford, Braun, Funck, Van Kampen, and Messrs. Byrne and Zepecki approving, and the Chairman and Mr. Harper opposed, to approve the adoption of the following resolution:

The Pension Board offers no formal comment regarding the proposed amendments to section 201.24(4.1) of the Milwaukee County Code of General Ordinances amending the Employees' Retirement System of the County of Milwaukee ("ERS") related to eligibility for the Rule of 75. The Pension board waives the balance of its 30 day comment period provided for under section 201.24(8.17) of the Milwaukee County Code of General Ordinances.

The motion passed with the necessary five votes as required by Ordinance section 201.24 (8.5).

9. Disability Retirement Applications

(a) Connie Arnold

Ms. Arnold addressed the Pension Board in open session. Ms. Arnold first reported she received a letter from Ms. Ninneman in December 2015

explaining that ERS had contracted with Managed Medical Review Organization, Inc. ("MMRO") and MMRO would review her disability retirement claim. Ms. Arnold then stated "this report is not accurate" and claimed MMRO used information from 2013 in its analysis. Ms. Arnold indicated she has further documentation from her physician, affidavits from her coworkers, and reports regarding injections, lab results and x-rays. Ms. Arnold also reported, in response to questions from the Chairman and Mr. Carroll, that she attended a hearing before an administrative law judge this morning who ruled favorably in her Social Security disability application. Ms. Arnold explained the judge indicated she would have a written report within three to four weeks.

Ms. Arnold next claimed MMRO first contacted her on October 10, 2016 to advise that a disability nurse would contact her in two to three weeks for an independent medical exam. Ms. Arnold observed that MMRO's report is dated October 10, 2016 and argued she was not provided any opportunity to submit any additional paperwork.

In response to a follow-up question from Ms. Braun, Ms. Arnold explained the hearing this morning was held before an administrative law judge because her Social Security disability application was initially denied. Ms. Arnold appealed the denial and her appeal was also denied, resulting in the hearing before the administrative law judge. Ms. Arnold noted she has waited approximately four years for this hearing.

Ms. Arnold then asked if she should submit any additional documentation for review to the Pension Board today. Ms. Ninneman explained that she had no stamp with her today to date stamp the materials as received and asked Ms. Arnold to submit any additional materials to RPS at a later date.

The Chairman thanked Ms. Arnold for appearing before the Board and explained she would be notified in approximately 7 to 10 days of the Board's determination in writing if she did not wish to wait for the Board to return from closed session.

Following its open session discussion of the disability retirement application, Ms. Braun moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(f) with regard to item 9 for considering the financial, medical, social or personal histories of the listed persons which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of those persons, and may adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(g) with regard to items 9 through 13 for the purpose of the Board receiving oral or written advice from legal counsel

concerning strategy to be adopted with respect to pending or possible litigation. At the conclusion of the closed session, the Board may reconvene in open session to take whatever actions it may deem necessary concerning these matters.

The Pension Board agreed by roll call vote 8-0 to enter into closed session to discuss agenda items 9 through 13. Motion by Ms. Braun, seconded by Ms. Bedford.

The Pension Board discussed agenda items 9 through 13 in closed session.

After returning to open session, the Pension Board voted unanimously to accept the Medical Board's recommendation to deny the ordinary disability pension application of Ms. Arnold. Motion by Mr. Harper, seconded by Ms. Bedford.

10. Pending Litigation

(a) Tietjen v. ERS

The Pension Board took no action on this item.

(b) Trapp, et al v. Pension Board

The Pension Board took no action on this item.

(c) Walker v. ERS

The Pension Board took no action on this item.

(d) Baldwin v. ERS

The Pension Board took no action on this item.

(e) Milwaukee District Council 48 v. Milwaukee County

The Pension Board took no action on this item.

(f) Wilson v. ERS

The Pension Board took no action on this item.

(g) Griffin v. ERS

The Pension Board took no action on this item.

11. Baldwin—Tolling Agreement

The Pension Board discussed the matter in closed session.

After returning to open session, the Pension Board voted 7-0-1, with Mr. Zepecki abstaining, to direct Retirement Plan Services to reduce Ms. Baldwin's pension benefit in accordance with its February 25, 2015 letter as soon as administratively feasible due to the end of the 2014 No Waiver and Tolling Agreement. Motion by Ms. Funck, seconded by Mr. Harper.

12. Actuarial Valuation Error

The Pension Board took no action on this item.

13. Report on Compliance Review

The Pension Board took no action on this item.

14. Reports of Director-Retirement Plan Services & Fiscal Officer

(a) Retirements Granted Report

Ms. Ninneman explained the November Retirements Granted report was not yet available and noted it will be presented at the December Board meeting.

(b) Retirement Plan Services Update

Ms. Ninneman reported that ERS has been granted an extension to complete the VCP calculations. RPS staff encountered certain data issues with approximately 200 of the mortality table calculations and could not meet the November 21, 2016 deadline. Outside of the long hours staff has worked to complete the VCP calculations, RPS's appointment schedule has been light. RPS anticipates an increase in the number of appointments in January and February 2017 because members typically postpone retirement until receiving vacation allotments in the new calendar year.

(c) Administrative Corrections

There were no administrative corrections to report.

(d) Fiscal Officer Report

Ms. Lausier distributed the October 2016 portfolio activity report and a revised September 2016 portfolio activity report. Ms. Lausier explained the revised September report lists the \$1.1 million loss under Segall Bryant as a net unrealized loss instead of a net realized loss. Ms. Lausier reported there was minimal portfolio activity in October.

Ms. Lausier next distributed and discussed the October 2016 cash position report. ERS received the second 2016 contribution installment from the County of \$15.9 million. The County's third and final 2016 installment of \$15.5 million is expected in December. The County's contribution payments have been deposited in the general cash account with Northern Trust managing the overlay. ERS has been using the cash account to fund disbursements and has not had to raise additional cash from other accounts. There was only one capital call in October for \$18,000 from Adams Street. Siguler Guff recently placed a \$400,000 capital call and that will be due by the end of November. Marquette anticipates the pace of capital calls should increase after December.

Ms. Lausier concluded with a discussion of the Funds Approved by the Board report. The report reflects the corrected amount of \$11 million approved by the Board in September 2016 for VCP funding. The report also reflects the \$3 million approved by the Board in October 2016 for additional VCP funding. Ms. Lausier reported that approximately \$18 million will be needed to fund November benefit payments. The backDROP payments for November are estimated at \$1.85 million, with one backDROP payment exceeding \$900,000. Remaining cash for December 2016 is estimated at \$20.5 million to cover December benefit payments and the remainder of VCP funding.

15. Administrative Matters

The Pension Board discussed additions and deletions to the Pension Board, Audit Committee and Investment Committee future topic lists.

Ms. Braun suggested the full Pension Board discuss the 2017 meeting schedules. Ms. Braun noted that recent attendance at the Audit and Investment Committee meetings has declined dramatically. Ms. Braun questioned whether the recently revised Pension Board meeting schedule is affecting the ability of members to attend the Committee meetings or, if other reasons might be involved. Ms. Braun suggested the Pension Board may wish to return to its former meeting schedule of the third Wednesday of each month. This schedule would allow for greater dispersion of meeting

dates throughout the month which may help increase Committee meeting attendance.

In response to a question from Ms. Van Kampen, Ms. Ninneman explained the proposed 2017 meeting schedule will be ready for presentation at the December Audit Committee and Pension Board meetings.

The Pension Board then discussed upcoming conference attendance.

In response to a question from the Chairman, Ms. Ninneman explained that membership in the International Foundation of Employee Benefit Plans ("IFEBP") does not require annual approval by the Board. However, the Board has typically approved attendance annually for all IFEBP conferences.

The Pension Board unanimously approved the costs for any interested Pension Board member or ERS staff member to attend any of the 2017 IFEBP Conferences. Motion by Ms. Van Kampen, seconded by Ms. Funck.

The Chairman next noted a request by Mr. Harper for annual membership covering all Board members in the Institutional Limited Partners Association ("ILPA").

Mr. Harper explained ILPA has been working to standardize reporting and monitoring of private equity portfolios. In addition, ILPA educates organizations that desire to obtain a greater understanding of the private equity due diligence process. Mr. Harper suggested that because ERS is increasing its private equity allocations, the Board would benefit from an enhanced personal understanding of these matters instead of relying solely on the consultant to manage and explain the process.

Ms. Braun observed that Marquette has provided excellent training on private equity investments to the Investment Committee. However, Ms. Braun noted that information regarding private equity is very complex and Marquette's training was limited to only one Committee meeting. Ms. Braun suggested the Board would benefit from additional educational opportunities as it continues to make major decisions relative to increasing the Fund's private equity investments.

In response to questions from Ms. Funck, Mr. Harper explained the ILPA membership fee is based on organization type and size.

In response to follow up questions from the Chairman and Ms. Ninneman, Mr. Carroll explained that according to an e-mail from Shawna Kaufman at

ILPA regarding membership fees, a Tier I annual membership in ILPA would be \$3,000. The \$3,000 Tier I membership is a reduced fee that would cover an unlimited number of users, including RPS staff, if the Board joins by December 1, 2016.

In response to a question from Mr. Zepecki, Mr. Byrne reported that according to ILPA's website, the organization has existed since the early 1990's. Approximately 350 large and small institutions, including public pension funds, are members in ILPA.

The Pension Board unanimously approved a Tier I membership in ILPA. Motion by Ms. Bedford, seconded by Ms. Braun.

The Chairman concluded by noting a request by Mr. Harper to attend the Level 1 ILPA training from March 5-8, 2017 in San Francisco.

In response to a question from the Chairman regarding fees, Mr. Harper stated the early bird registration fee is approximately \$2, 600.

In response to a question from Ms. Braun, Mr. Harper confirmed the March 2017 ILPA Level I training is similar to the ILPA conference the Board previously approved in May 2016. However, Mr. Harper explained he could not attend that conference due to a scheduling conflict.

In response to follow-up questions from the Chairman and Ms. Ninneman, Mr. Harper confirmed the ILPA conference the Board approved in May 2016 was in London and no registration fees were paid for that conference.

The Pension Board unanimously agreed to approve the request by Mr. Harper for payment of the \$2,600 registration fee and customary transportation and lodging costs to attend the Level 1 ILPA training from March 5-8, 2017 in San Francisco. Motion by Ms. Funck, seconded by Mr. Byrne.

16. Adjournment

The meeting adjourned at 12:45 p.m.

Submitted by Steven D. Huff,
Secretary of the Pension Board